

Investment Insight

Investing with “Grit”

If there's one thing that the extended bull market run has taught us, it's that investing takes “grit”. Often dubbed “the most hated bull market of all time”, for many years now the media has been calling its top.

Grit is about having the same goal for a very long time, and sticking to it despite setbacks or failures. Researchers have determined that it can be one of the greatest predictors of an individual's long-term success, even more important than IQ or wealth.¹

As investors, how do we maintain grit in investing?

Savvy investors start by having a plan in place. Portfolios are created with personal objectives in mind, to meet an investor's needs over the longer term. Each element has been selected to serve a purpose, in both up and down markets.

Then, they stick to the plan. This involves focusing less on short-term news and more on end goals. In good times, it means maintaining a realistic approach to returns and not chasing strong market performance. In difficult times, it often means tuning out the noise and continuing to save and invest.

Where are the economy and the markets headed? This is not a normal cycle left to run by itself. It has been largely supported by the

actions of central banks. Over the summer, while the Bank of Canada kept interest rates on hold, the U.S. Federal Reserve lowered its overnight rate for the first time in over a decade (see page 2). Will this help to keep recessionary concerns at bay?

Of course, the economic cycle is immutable and there will be inevitable ups and downs. But there is often little value in trying to predict the markets or economy: your plan's overall success isn't dependent on calling the top of any cycle. Many investing mistakes come from trying to run a marathon in an hour. As the saying goes: “More money has been lost preparing for corrections than has been lost in corrections themselves.”

Modern capital markets have always adjusted and progressed. It is a good reminder that over the past 25 years, the equity market went up by 393 percent, in spite of two recessions collectively lasting 32 months and three bear markets totaling 38 months, two of which saw market drops of over 40 percent.² We may forget that bad news almost never supersedes the power of true grit.

The investing journey is a long one and an investor's ability to keep focused can be one of the keys to longer-term success. And, it all starts with a little grit.

1. “Grit: The Power of Passion & Perseverance”, Angela Duckworth, 2016; 2. S&P/TSX Composite Index, 8/94 to 8/19.



Garrett Surcon and Tim Mahoney

To Our Clients:

There has been no shortage of gloomy news: civil unrest in Hong Kong, political upheaval in Argentina, ongoing trade tensions and slowing economies globally. We have also seen significant market volatility over recent months — all of which may be testing our “grit” in investing.

However, during this Thanksgiving season, we are reminded of the many positives: we live in a nation of peace, prosperity, inclusivity and resilience. The markets will overcome today's challenges — this, too, shall pass. We are grateful to you, our clients, for entrusting us to be stewards of your wealth. Wishing you the best this season and always.

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Back to School Time: Funding an RESP for Grandchildren?

With kids now back in school, and with education costs continuing to rise, many grandparents have been asking about funding a Registered Education Savings Plan (RESP) for a grandchild's post-secondary education.

While it is possible for grandparents to open an RESP for grandchildren, it is important to exercise caution for two reasons. First, if multiple RESPs exist for the same child, total contributions need to be monitored so they don't exceed the maximum of \$50,000 per beneficiary, as penalties will apply. Second, if the beneficiary doesn't pursue post-secondary education, under certain circumstances RESP funds may be transferred back to the contributor's Registered Retirement Savings Plan (RRSP). However, grandparents beyond the RRSP age cannot transfer funds to a Registered Retirement Income Fund (RRIF). As such, taxes and penalty taxes would generally apply to earned amounts. Thus, if parents have already opened an RESP, it may be better to gift funds to the parents and have them make the RESP contribution.

Are there other funding alternatives?

Setting up a trust* may be an alternate solution. There are no contribution limits, but unlike an RESP there are no tax deferral or

Canadian Education Costs: By the Numbers



\$25,000+ Estimated average student debt amount¹

\$19,499 Average annual cost of post-secondary education (including tuition, books and other costs)²

433% Increase in average tuition over 25 years³

48% Parents with children under age 18 who expect to postpone retirement due to post-secondary education costs⁴

1. nationalpost.com/news/canada/as-student-debt-climbs-to-an-average-past-25k-schools-invest-in-battling-the-mental-health-issues-it-causes; 2. madeans.ca/education/the-cost-of-a-canadian-university-education-in-six-charts/; 3. Statistics Canada Table 37-10-0003-01; 4. FP Canada, Student Debt Study, May 2019.

CESG benefits.¹ If set up and administered correctly, it may be possible to have withdrawals taxed in the hands of a beneficiary (which may be beneficial if the child has a lower tax rate). However, keep in mind that once a child gains control, usually at age of majority, the funds can be used for any purpose, not just education.

To discuss more about these or other options, please call the office.

*Note: Setting up a trust may be a complicated legal arrangement and a tax expert should be consulted to ensure it is carried out in the way intended. 1. Canada Education Savings Grants (CESGs) can total up to \$7,200 in a RESP beneficiary's lifetime.

The Yield Curve and Interest Rates: What Do They Mean?

If you've been paying attention to the markets or the media lately, there has been a lot of talk about the yield curve.

What is the yield curve? Simply put, it is a graph that plots the interest rate yields of bonds over time. Usually, longer maturity bonds have a higher yield than shorter maturity bonds because investors are compensated with a higher return for tying up their money for a longer period of time.

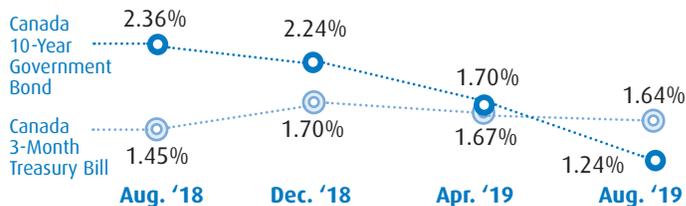
However, in March of this year, the yield curve inverted for the first time since the financial crisis of 2007/08. This means that a shorter-term bond has a higher yield than a longer-term bond. One year ago, the yield on a Canada 10-year government bond was 0.91%, or 91 basis points, above the rate on a 3-month treasury bill. In August, it was around 40 basis points *below*. For many economists, the inverted yield curve has historically been one indicator of an impending recession.

Does this mean a recession is in sight?

There's an old joke that says the markets predicted nine of the past five recessions. This is to say that predictions are often more pessimistic than what happens in reality. Of course, as long as we have a business cycle, every recession prediction will eventually be correct, it's just the timing that is often wrong.

While it is true that global economic growth has slowed, these are unprecedented times. Never before have central banks held interest rates at low levels for such long periods of time. In July, the U.S. lowered its overnight interest rate for the first time in over a decade, citing slower global growth and uncertainty from U.S./China trade tensions. Here at home, interest rates were held steady

The Difference a Year Can Make: Rates on Select Bonds



Source: Bank of Canada: 8/1/18, 12/1/18, 4/1/19, 8/8/19.

(at press time) due to a variety of bright spots: over the summer Canada's productivity, measured by GDP, posted surprising growth; employment still remains at historical highs; many corporations have posted positive results; and households continue to spend.

Negative interest rates: The new normal?

In some parts of Europe and in Japan, negative interest rates have continued for years. Central banks have kept overnight rates negative to dissuade commercial banks from maintaining large deposits with the central bank and instead encourage them to lend to businesses and consumers who will spend funds. This is to try and boost economic activity, growth and inflation.

What does this mean for investors?

Equity markets can react favourably to lower interest rates. As finding income in fixed income products becomes more difficult, investors may look to more risky assets like equities. However, slowing global growth is also expected to impact global equity markets. Growing global indebtedness continues to be a concern for many economists; the future consequences of which are not fully understood.

Thinking About Gifting Funds to Adult Children?

Most of us have heard the statement: *“back in my day, I walked uphill both ways to get to school.”* However, given the rising costs to own a home or earn a higher education, perhaps kids these days don’t have it as easy as we think. If we look back 35 years, the average cost of a home was only 1.6 times annual family income; today, it has climbed to around eight times average income. Tuition costs have risen faster than inflation. One thing in today’s favour? A mortgage today comes with lower interest rates, if you can afford it!

How Costs Have Risen in 35 Years: Select Costs in 1984 vs. 2019

| Average Cost | 1984 ^A | Inflation-adjusted: 1984 figures in 2019 terms ^F | 2019 |
|----------------------------------|-------------------|---|-----------|
| Canadian home ^B | \$76,214 | \$171,132 | \$480,000 |
| Tuition ^C | \$1,058 | \$2,376 | \$6,838 |
| Family income ^D | \$48,500 | \$108,902 | \$71,000 |
| 5-yr. mortgage rate ^E | 13.6% | N/A | 4.4% |

A: 1984 figures: Globe & Mail “2012 vs 1984: Young Adults Really Do Have It Harder Today”, R. Carrick, 12/18/12; B: cbc.ca/news/business/crea-house-price-march-1.5098120; C: Statistics Canada Table 37-10-003-01; D: Statistics Canada (after-tax) figures; E: Bank of Canada v122497, CANSIM 027-0015; F: Adjusted for inflation using Bank of Canada inflation calculator, www.bankofcanada.ca/rates/related/inflation-calculator/

Given these financial challenges, we are often asked about gifting money to adult children. There are many other reasons to gift funds: It may be fulfilling to see funds put to work while you are alive or when most needed by a child; some wish to die with as few assets as possible; and others wish to take advantage of income-splitting opportunities.* If you are thinking of gifting funds to adult children, here are three things to keep in mind.

1. Plan ahead, with care. Before you consider gifting, ensure you will have sufficient funds for your own retirement. It isn’t unheard of to have a situation in which parents have suffered financial difficulties down the road because too much was gifted to children. Often, contingencies such as health care aren’t adequately factored in. Planning for longevity and its associated costs is something we can assist with. As life expectancies rise, this becomes more important than ever.

2. Let it go. If funds are truly a gift, there should be no strings attached. One concern that parents have if children are married/common-law is what happens in the event the couple splits. If there is a desire to protect funds in the family, this should be planned from the onset. Various arrangements, if executed properly, may be viable alternatives to a gift. For instance, if funds are to be used to purchase a home, consider gifting them to a trust for the purchase. Or, a loan may be chosen over a gift. As family law varies by province, seek legal assistance in the province where the child resides.

3. Clarify to avoid future discrepancies. It may be beneficial to create and retain documentation to avoid future disputes. If the intention is to eventually equalize your estate between multiple beneficiaries, the gift could be structured as an advance of a beneficiary’s future inheritance. Either way, this should be clearly communicated or documented. There have been situations in which family members have questioned past gifts when settling an estate.

*The tax rules for attribution of income and tax on split income should be considered before implementing income-splitting measures.

Before Year End: Do Good; Save Tax!

’Tis almost the season of giving. If you are planning on taking equity gains after the extended bull run and may be faced with the prospect of a substantial capital gains tax liability, why not consider doing some good, while saving tax at the same time?

Even though capital gains are taxed at one-half the regular rate, it may not be palatable to see an asset value reduced by the Canada Revenue Agency. If you were to instead donate appreciated shares “in kind,” you would receive a donation receipt for the gross value of shares and not be subject to the capital gains liability. However, shares must be donated — do not sell them first and donate the proceeds as part of the tax benefit will be lost.

Be sure to give yourself enough time to do this before year end. The donation must be received by the charity before the calendar year end for it to apply to your 2019 personal income taxes, but time may be required to settle the transaction. Please call for assistance.

Five Interesting Charity Facts



France is the first country to forbid food waste by supermarkets; by law they must donate it to charity.¹



Late actor Paul Newman commercialized his homemade salad dressing in 1982. “Newman’s Own” donates all after-tax profits to charity: US\$525 million to date.²



The “Giving Pledge” consists of 204 of the world’s wealthiest from 23 countries who have pledged at least half of their wealth to charity.³



When George Lucas sold the rights to Star Wars in 2010, he pledged the majority of the \$4 billion in proceeds to educational charity.⁴



John F. Kennedy donated his entire presidential and congressional salaries to charity during his time in office.⁵

1. npr.org/sections/thesalt/2018/02/24/586579455/french-food-waste-law-changing-how-grocery-stores-approach-excess-food; 2. newmansown.com; 3. givingpledge.org; 4. forbes.com/sites/briansolomon/2012/11/04/donating-star-wars-billion-will-make-george-lucas-one-of-the-biggest-givers-ever/#606f8e5d2adb; 5. upi.com/Archives/1962/11/14/JFK-Donates-Full-Salary-To-Charity/3714224962880/

Planning Ahead: Converting Your RRSP to a RRIF

The end of the year is quickly approaching. For individuals who have turned, or will turn, 71 years old in 2019, remember that funds in your Registered Retirement Savings Plan (RRSP) must be withdrawn, transferred to a Registered Retirement Income Fund (RRIF) or used to purchase an annuity by the end of the year. If you choose to convert to a RRIF, you will be subject to the RRIF minimum income withdrawal rules starting in the year after you open the RRIF.

The decision to convert an RRSP to a RRIF should be part of a larger retirement income strategy. There are many moving parts that may impact the conversion, including:

Tax planning — RRIF withdrawals are included in annual taxable income. The required minimum withdrawal is based on a set percentage of the RRIF value at the start of the year (the percentage gradually increases each year, to age 95).

Preserving income-tested benefits — In order to preserve income-tested benefits like Old Age Security (OAS), you may wish to keep RRIF withdrawal amounts within a certain level. By taking larger withdrawals from the RRIF in certain years, or in the RRSP before you convert to the RRIF, you may be able to reduce the opening asset balance and, therefore, the minimum withdrawal in a future year. This may require advanced planning. This may also depend on when you plan to start OAS benefits — as early as age 65 or as late as age 70.

Pension income tax credit — If you are 65 years of age or older and do not have pension income, you can open a RRIF and

do a (partial) conversion prior to age 71 in order to be eligible to receive the federal, non-refundable tax credit on the first \$2,000 of pension income. Provincial credits may also apply.

Income splitting — If you have a spouse* in a lower marginal tax bracket, there may be an opportunity to lower your overall household tax bill. You can notionally split up to 50 percent of eligible pension income with a spouse on your tax return, which includes your RRIF income once you turn age 65.

Planning with a younger spouse — When setting up your RRIF and before you have received any payments, if you have a younger spouse, you may be able to use your spouse's age as the basis for withdrawal calculations, which can result in a lower minimum withdrawal rate.

Tax-deferred growth — Don't forget that keeping funds in the RRIF allows you to take advantage of tax-deferred growth. If you decide to withdraw funds, consider depositing assets into a Tax-Free Savings Account (TFSA) should contribution room exist, to allow assets to grow on a tax-free basis. At the time of withdrawal, assets withdrawn from an RRSP/RRIF will be subject to tax.

Given the many considerations when converting an RRSP to a RRIF, it is recommended to plan ahead as you consider your overall retirement income strategy. If you need help with this, or any other retirement planning matters, please get in touch.

*Including common-law partner.

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